

In Confidence

Office of the Minister of Education

Chair, Cabinet Social Wellbeing Committee

Education Funding Review: Proposed New Direction

Proposal

- 1 This paper describes how I intend to take forward the review of funding systems for early childhood education (ECE) services, ngā kōhanga reo and schooling. As a consequence of this new direction, I am seeking agreement to rescind the previous Government's decisions on replacing the decile system and agreement that I announce a proposed refocusing of the funding review, including how the index developed for the allocation of funding for socio-economic disadvantage will be used.

Executive Summary

- 2 The Education Work Programme I have initiated aims for a high quality, fair, and inclusive education system that provides all New Zealanders with learning opportunities and prepares them for the future. Addressing the impact of socio-economic disadvantage on students' outcomes and reducing disparities between those from disadvantaged circumstances and other children is critical to realising this vision.
- 3 The previous Government was reviewing the funding systems for early childhood education services and ngā kōhanga reo ('services') and schools. The model being explored included funding for children at greater risk of educational underachievement due to socio-economic disadvantage [CAB-16-MIN-0545 refers].
- 4 On 26 June 2017, Cabinet agreed to replace the decile funding system for services and schools with a predictive *Risk Index* (the index) that would estimate the number of children in each service or school at greater risk of educational underachievement due to disadvantage. Much of the detail was still to be worked through, including funding [CAB-17-MIN-0311.01 refers]. On 1 August 2017, this decision was announced, as was a likely start date of either 2019 or 2020.
- 5 I seek Cabinet's agreement to rescind the decisions to replace the decile system, which was a major unfunded promise by the previous Government.
- 6 I propose to refocus the disadvantage component to take a system-wide focus on equity. The index that has been developed provides valuable insights into the impact of disadvantage across services and schools. The index would be taken beyond a narrow use for allocation of a small portion of funding to support the development of improvements at an education system level and improvements in how resources are applied and interventions triggered.
- 7 While I propose to not proceed with the replacement of the decile funding system in line with the previous Government's timeframe, I do intend to revisit this in light of what the work discussed above reveals about how wider system settings should address equity.

This will include what that means for the quantum of resourcing required by schools and how schools should be resourced.

- 8 Given that decile funding will not be replaced in 2019 or 2020, I have instructed the Ministry of Education to proceed with recalculating deciles in schooling and the equity index in services using the result of the Census. New decile ratings will take effect in 2020 as planned before the decision to replace the decile system was taken.
- 9 While much of the public attention has focused on the replacement of decile funding, decisions on the other components of the previous Government's funding model are also required. I propose that some of the components are discontinued and others progressed through my work programme or incrementally as opportunities arise.

Background: The Previous Government's Funding Review

The model explored by the previous government

- 10 Over the last three years of the previous government, the Ministry of Education reviewed the funding systems for early childhood education services and ngā kōhanga reo ('services') and schools. The previous Government was exploring a specific child-centred model made up of:
 - a curriculum-based per-child funding amount
 - additional funding for:
 - children at greater risk of educational underachievement due to socio-economic disadvantage
 - children with learning support needs.
- 11 Supplementary funding was to be provided to services and schools that, because of small size, would not be educationally viable at the funding levels generated by the core components. Supplementary funding would also be provided to schools and services in isolated locations. Despite earlier testing of ideas around 'global budgets' (a form of bulk funding), by 2017 it was being proposed that state and state-integrated schools would continue to be funded by a combination of cash and staffing entitlement.
- 12 The per-child subsidy for private schools was proposed to be a fixed proportion of the curriculum-based per-child funding amount.
- 13 The model also included, for state and state-integrated schools, separation of funding for property maintenance from other funding with restrictions on how this is spent to better ensure appropriate maintenance and vandalism of school property as well as funding for heat, light and water based on actual spend [CAB-16-MIN-0545 refers].

In-principle decisions taken by previous government in March 2017

- 14 On 20 March 2017, Cabinet agreed in-principle to:
 - move away from a place-based funding system for early childhood education and ngā kōhanga reo to a per-child funding system
 - a set of minimum requirements for how schools use funding for property maintenance and vandalism, to be determined by the Ministry in consultation with

the sector, as well as phased implementation of heat, light and water funding based on actual spend [CAB-17-MIN-0110 refers].

- 15 The Government chose not to announce either of these decisions before the 2017 election. The in-principle decisions have not been confirmed formally.

Previous government's decision to replace the decile funding system

- 16 On 26 June 2017, Cabinet agreed to replace the decile system for services and schools with a predictive index that estimates the number of children in each service or school at greater risk of educational underachievement due to disadvantage. The index was to be based on information available on each child in the Integrated Data Infrastructure (IDI).
- 17 It also agreed in-principle that, in implementing a new funding model, no school or service would lose funding as a direct result of the replacement of the decile system.
- 18 Much of the detail was still to be worked through by the Ministry of Education, including testing and refining the index, working through the detail of the transition arrangements and the funding implications [CAB-17-MIN-0311.01 refers].
- 19 On 1 August 2017, the previous Government announced these decisions and that, for schools, it was likely the new model of funding would take effect from 2019 or 2020.
- 20 After the change of government, I signalled I would announce a decision on whether, and if so how, the new Government would proceed with the previous government's funding model at or before the 2018 Budget. There has been specific interest in whether or not the replacement of the decile funding system will proceed. In February, as part of my Education Portfolio Work Programme, I advised Cabinet Business Committee that further work was required on this.

Comment

A system-wide focus on equity

Decile replacement

- 21 I seek Cabinet's agreement to rescind the previous Government's decision to replace the decile system for early childhood education services and ngā kōhanga reo and schools with a predictive risk index that will estimate the number of children in each service or school who are at greater risk of educational underachievement due to disadvantage, based on information available on each child in the Integrated Data Infrastructure database [CAB-17-MIN-0311.01 refers]. This decision was taken before the necessary design-work had been undertaken.
- 22 Moreover, despite the previous Government also agreeing in principle that "we will ensure that no school or service will lose funding as a direct result of the replacement of the decile system" [CAB-17-MIN-0311.01 refers], the decision was taken without any funding at all being appropriated to support the move from the decile system to the new approach.
- 23 That Government had previously been advised that New Zealand has lower levels of equity and lower levels of investment in equity compared with other OECD countries and that if funding was to be maintained at existing levels, the move to a predictive index would lead to more schools losing than gaining funding. In March 2017, it considered two scenarios for additional investment to support schools to mitigate the impact of disadvantage

on children's progress and achievement (\$100 million or \$165-\$175 million per annum). This additional investment would also have had the effect of reducing the number of schools to potentially lose funding as a result of moving to the proposed index, mitigating concerns about the transition.

- 24 To have proceeded with a move away from decile on this basis would have required this Government to appropriate at least around \$250 million over the forecast period (2018/19-2021/22) for the schooling sector alone. Estimates of the additional funding for early childhood education services and ngā kōhanga reo were not developed under the previous Government.
- 25 The Ministry of Education estimates that the minimum injection of additional funding to keep faith with no school or service losing funding would have been \$23 million a year (approximately \$58 million over the forecast period). However, this approach would not really have been viable as it would have meant in effect running two parallel systems with over half of the schools and services effectively continuing to be funded on a decile basis.
- 26 Our Government has set out a significant programme of change for the Education portfolio, has its own investment priorities and also faces significant cost pressures in important areas, including learning support. I do not propose that we displace these priorities in favour of this unfunded promise from the previous Government.

Using insights into disadvantage across the Education Work Programme

- 27 In this context, I propose that the *Risk Index* announced by the previous Government be further developed as an *Equity Index* to take it beyond its narrow application as a tool to inform the allocation of a small part of schools' operational funding and of the equity index (EQI) funding for services.
- 28 I consider that the index gives valuable insights into the impact of disadvantage across early childhood and schooling. It shows that concentration of disadvantage matters for educational progress and achievement. The analysis completed using the index shows that, while most students go to schools with low levels of disadvantage, most disadvantaged students go to schools with very high levels of disadvantage (above 45%). Often these schools are small or Māori medium. An increasing number of schools have either very high or very low levels of disadvantage with fewer schools having moderate levels (10-45% of the students coming from socio-economic disadvantaged circumstances). Once schools get beyond having 30% of their students from disadvantaged circumstances they struggle to achieve (eg secondary schools are unable to achieve high NCEA Level 2 achievement rates at these levels of disadvantage). Importantly, high concentration of disadvantage in a school impacts on all students in that school, not just on those from disadvantaged circumstances.
- 29 These insights should inform work across the relevant components of the Education Work Programme so they can be shaped to better tackle the impact of disadvantage and support efforts to improve equity. This starts with sharing these insights with relevant advisory groups (the Independent Review of Tomorrow's Schools, and the Ministerial Advisory Group for the Early Learning Strategic Plan in particular).

System-wide work on resourcing for equity

- 30 In addition to the improvements that can be made throughout the Work Programme, work on resourcing is also necessary to improve equity. I have directed the Ministry of Education to undertake a programme of work to develop advice on how to improve

education system settings and targeting of resources for equity, in particular for students from disadvantaged backgrounds and/or with learning support needs. This work will also draw on existing evidence about what works to improve educational outcomes for students from disadvantaged backgrounds and will support future advice about how resources are best applied. This could, for example, include how the index can be applied to the allocation of professional learning and development (PLD), teacher aides, and the targeting of interventions.

- 31 The resourcing component within the Learning Support Action Plan will also be covered by this work.
- 32 I have asked the Ministry to complete further analysis to add depth to our understanding of the impact of disadvantage on all children, including the impact of higher concentrations of disadvantage in schools on all children in that school and the key tipping points where concentration makes a difference to the likely achievement of students from disadvantaged and other backgrounds. The Ministry will use these insights to advise on improvements at an education system level and improvements to how resources are applied and interventions triggered.

Further refinement of the index

- 33 I have also asked the Ministry to examine the potential to further refine the index so it can identify the impact of disadvantage on wellbeing in a broader sense (instead of just NCEA achievements as at present). Possible refinements could, for example, include students' life trajectories after secondary school.

Potential replacement of decile system in the long run

- 34 I do not plan to proceed with the replacement of the decile funding system by 2020 as announced by the previous Government. However, I do intend to revisit this question in light of what the work programme discussed above reveals about how wider system settings should address equity as well as what that means for the quantum of resourcing required by schools and how schools should receive this resourcing. Using the index to replace decile now is likely to distract from the wider insights into disadvantage that it gives and the system-wide application of these insights.
- 35 In anticipation of a future decision on decile funding, I have asked the Ministry to undertake work to model different approaches to phasing a transition so that the distributional implications and costs would be kept to a minimum. [REDACTED]

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Recalibration of deciles as scheduled for 2020

- 36 As a consequence of the deferral of a decision on the replacement of the decile funding system, I have also instructed the Ministry to proceed with recalculating deciles in schooling and the equity index for services once the results of this year's Census become available. The new deciles and equity index ratings would take effect in 2020. There will be distributional consequences for schools similar to those of the last update. The distributional consequences will be larger for services where the index has not been updated since 2006.

Future direction for other components of Funding Review

- 37 While much of the public attention about the future direction of the previous government's funding model has focused on the replacement of the decile funding system, decisions on each of the other components of the model are also required.
- 38 I propose not to continue with a full new funding model. Instead, improvements within each component of that model will be progressed as outlined below:

Table One: Proposed future direction for other components of the Funding Review model

| Component | Future direction |
|--|--|
| Per-child funding amount in schooling | Do not proceed. Make incremental improvements to funding formulas as opportunities arise |
| Per-child funding amount in early childhood education and ngā kōhanga reo | Consider in light of the finalised Early Learning Strategic Plan |
| Learning support allocation in schooling | Progress through the above-mentioned programme of work to improve resourcing for equity |
| Supplementary funding for smallness in schooling | Make incremental improvements to funding formulas as opportunities arise |
| Supplementary funding for isolation for schools and services | Update and improve after the results of the Census become available late this year |
| Separate funding in schooling for property maintenance and vandalism with minimum maintenance requirements | Progress as part of the Comprehensive Reform of School Property |
| Funding for heat, light and water based on actual spend in schooling | Progress as part of the Comprehensive Reform of School Property |
| Private school per-child subsidy set at a fixed proportion of the per-child funding amount | Do not proceed. This would be incompatible with a freeze on the private school funding pool, and in any case it is proposed above that the per-child component itself not proceed. |

Implications for decisions taken by the previous government in March 2017

Per-child funding in early childhood education and ngā kōhanga reo

- 39 The two main funding streams for early childhood education services and ngā kōhanga reo are:
- 20 Hours ECE, which provides 20 hours of fully subsidised ECE for children aged 3-5 years
 - the ECE Subsidy, which provides 30 hours per week of partial subsidy for children aged 0-5 years.

The 20 Hours ECE Subsidy is paid on a per-child basis. Funding is attached to the individual child. This ensures that each child is entitled to a maximum of 20 hours of subsidy per week. The ECE Subsidy is, in contrast, paid per child-place within a service. A child place can be shared by more than one child and a child can fill more than one place across services. This has led to a small proportion of children in services utilising

more than 30 subsidised hours per week. The transition to the new single funding approach would not impact on the vast majority of families and services.

- 40 This decision does not need to be rescinded as it was “in-principle” and can be considered in light of the Early Learning Strategic Plan. If this change was considered to be consistent with the Strategic Plan, then it would be confirmed. Allowing for a lead in time, it would not be in place until at least a year after decisions on the finalised Plan.

Property maintenance, vandalism, heat/light/water

- 41 These decisions do not need to be rescinded as they can be considered through the Comprehensive Reform of School Property.

Consultation

- 42 The Ministry of Health, Oranga Tamariki -Ministry for Children, the Office for Disability Issues, Te Puni Kōkiri, and the Treasury have been consulted.
- 43 The Department of Prime Minister and Cabinet has been informed.

Financial Implications

- 44 The previous Government had not appropriated new funding to support the implementation of the decisions that it had taken in 2017.
- 45 The costs associated with the recalculation of decile ratings and EQI will be sought through Budget 2019. The costs of the transitional arrangements following the last decile recalculation in schooling was \$8.6 million over two years (\$4.3m in 2014/15 and \$4.3m in 2015/16).
- 46 There may be some costs associated with some of the other components I intend to progress through my work programme or incrementally as opportunities arise. For example, there may be short-term transitional costs associated with the isolation index. These costs will not be known until work is further advanced and the funding required for any of these costs will be sought in future Budgets.

Legislative Implications and Regulatory Impact Analysis

- 47 There are no legislative implications and a Regulatory Impact Analysis is not required.

Gender, Disability and Human Rights Implications

- 48 The proposals in this paper are consistent with the New Zealand Bill of Rights Act 1990 and the Human Rights Act 1993 and does not give rise to any specific gender or disability implications.
- 49 Funding frameworks and how targeted funding for children with disabilities (learning support needs) is allocated has the potential to affect incentives or otherwise educational opportunity and inclusion. Therefore, care will need to be taken to carefully test the funding options and the incentives or disincentives that are created for children and their families/whanau to have sufficient support in schooling.

Publicity

- 51 In late 2017, I signalled I would announce a decision on how the Government would proceed with the funding review at or before the 2018 Budget. I, therefore, seek agreement to announce the refocusing of the index, the proposed work on disadvantage and equity, and the consequent decisions on the decile replacement in line with this timing.
- 52 There is likely to be public comment given the departure from the previous government's approach to decile funding. I note, however, that while the previous Government had announced its intention to replace decile funding it had not worked through the details, including the funding implications. I will also signal that any funding required to support any of the proposed changes will be sought through future Budgets.

Recommendations

- 53 The Minister of Education recommends that the Committee:
- 1 **note** the previous Government reviewed the funding systems for early childhood education services, ngā kōhanga reo and schooling and was exploring a specific child-centred model made up of:
 - 1.1 a curriculum-based per-child funding amount;
 - 1.2 additional funding for:
 - 1.2.1 children at greater risk of educational underachievement due to socio-economic disadvantage;
 - 1.2.2 children with learning support needs;
 - 1.3 supplementary funding for services and schools that, because of their small size and/or isolation, would not be educationally viable at the levels of funding generated by the core funding components;
 - 1.4 a per-child subsidy for private schools fixed at a proportion of the curriculum-based per-child funding amount;
 - 1.5 for state and state-integrated schools, separation of funding for property maintenance and heat, light and water from other funding with restrictions on how this is spent to better ensure appropriate maintenance of school property and to support optimal internal environments for learning [CAB-16-MIN-0545 refers];
 - 2 **note** that on 20 March 2017, Cabinet agreed in-principle to:
 - 2.1 move away from a place-based funding system for early childhood education and ngā kōhanga reo to a per-child funding system;
 - 2.2 a set of minimum requirements for how schools use funding for property maintenance and vandalism, which will be determined by the Ministry in consultation with the sector, as well as phased implementation of heat, light and water funding based on actual spend [CAB-17-MIN-0110 refers];
 - 3 **note** that on 26 June 2017 Cabinet:

- 3.1 agreed to replace the decile system for early childhood education services and ngā kōhanga reo and schools with a predictive risk index;
 - 3.2 agreed in-principle that in implementing a new funding model, it would ensure that no school or service will lose funding as a direct result of the replacement of the decile system [CAB-17-MIN-0311.01 refers];
- 4 **rescind** the decisions referred to in paragraph 3;
- 5 **agree** the *Risk Index* is refocused and further developed as an *Equity Index* to take it beyond its narrow application as a tool to inform the allocation of a small part of schools' operational funding and the equity index funding for early childhood education and ngā kōhanga reo to support a new programme of work to improve equity and support child wellbeing;
- 6 **note** that as a consequence of the deferral of a decision to replace the decile funding system, I have instructed the Ministry of Education to proceed with planning to recalculate deciles in schooling and the equity index for early childhood education and ngā kōhanga reo based on this year's Census with the new deciles and equity index ratings to take effect in 2020;
- 7 agree that for the other the components of the previous Government's funding model:
- 7.1 the per-child funding component in schooling not be explored further but incremental changes to funding formulas should continue to be made when opportunities arise;
 - 7.2 per-child funding component in early childhood education services and ngā kōhanga reo be considered in light of the finalised Early Learning Strategic Plan;
 - 7.3 learning support allocation in schooling be progressed through a programme of work to improve resourcing for equity;
 - 7.4 supplementary funding for smallness in schooling is advanced through incremental changes to funding formulas as opportunities arise;
 - 7.5 isolation index that supports supplementary funding for isolation for schools and early childhood education services and ngā kōhanga reo is updated and improved after the results of the Census become available late this year;
 - 7.6 separate funding for property maintenance and vandalism with minimum maintenance requirements and funding for heat, light and water based on actual spend in schooling is progressed as part of the Comprehensive Reform of School Property;
 - 7.7 private school per-child subsidy set at a fixed proportion of the per-child funding amount does not proceed;
- 8 note that:
- 8.1 in previous decile recalculations short term transition funding has been provided to schools that lost funding as a result of a change in decile rating [REDACTED]

- 8.2 any funding required to implement the recalculation of decile ratings and EQI will be sought through Budget 2019;
 - 8.3 any funding required for any of the components of the funding model that I intend to progress (recommendations 5, 7.2, 7.3, 7.4, 7.5.and 7.6 above) will be sought in future Budgets.
- 9 invite the Minister of Education to announce these decisions at or before Budget 2018.

Authorised for lodgement

Hon Chris Hipkins

Minister of Education